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DEVELOPMENTAL PERSPECTIVES ON EUROPE

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The crisis of 2008–2009 has ended, stockmarkets skyrocketed in 2012–2013, while growth of the real sector remained sluggish in Europe. This article attempts to explain the latter puzzle. Analyzing long term factors, the costs of short-termism in crisis management become obvious. The limitations of EU as a growth engine are highlighted.

Keywords: fiscal consolidation, growth crisis, structural reform, new political economy

JEL codes: O11, O23, P26

1. INTRODUCTION

Some years ago two platitudes seem to have dominated the discourse over post-communist countries. One was the claim 'transition is over', and the second was a highly optimistic assessment of growth potentials, current and future alike (Piatkowski 2013). It was customary to attribute next to miraculous features to the accession to the European Union. EU membership was seen basically as a growth engine (Stojkov – Zaldueno 2011) leading to by and large unconditional convergence on the ground, not just in models.

The global financial crisis of 2008–2009 and its aftermath of slow and uncertain recovery (more in: Farkas 2013), with sustaining fiancial instability in and around the Euro-zone, have raised doubts about the future of the new member states (NMS). While few analysts would doubt the validity of overall strategy of

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global integration and Europeanization, thorough analyses have raised *doubts against the sustainability of the catching up scenario.* Despite the diversity of strategies and policy options taken by the individual countries concerned, a common thread emerged in the deep drilling of country startegies. Namely: the questioning of the sustainability of the growth model followed in the preceding two decades has come to the fore. This holds for both resource rich Russia (Akindinova et al. 2013), and resource-poor, open and thus vulnerable central Europe (dell'Anno – Villa 2013; Marer 2013).

The underlying finding across the differences in terms of initial conditions, policy blunders, institutional imperfections, weak state capacity and often less than optimal interaction with the external world, especially with the European Union, is the following insight. It is not sufficient to attribute the slowdown of both potential and actual rates of growth to coincidental factors and policy mistakes. *It is the entire model of growth which has reached its limits,* once the one-time exogenous factors, such as the resource boom for Russia, or EU membership for the central European states, or peace building, democratic consolidation and Europeanization for Serbia ebb out. Endogenous factors and more of the same options, i.e. incremental if any improvement of the institutional infrastructure, continuation of populist policies of the past decade and dodging the tasks of long term development simply fail to deliver, already during the current decade.

2. REFORMS? WHAT REFORMS?

In a comparative analysis it is impossible to get into the petty detail of individual country experience, despite the fact that each story is quite different, the interaction of various stakeholders and the emergence of policy options continues to defy any attempt to put so different countries in the same basket. What we attempt to do is to show, that much like in the southern members of the European Union, *reform zeal has ebbed out in the post-1997 period.* Furthermore the state of finances remained fragile, especially if we consolidate public and private accounts. Third, the European Union failed to provide an efficient institutional and policy umberella, as was expected and theorized by many. While it is hardly a big surprise for the students and practitioners of EU affairs, it is exactly the opposite to which the optimistic expectations at the time of EU accession, i.e. roughly a decade ago were built, in both the markets and the policy-making and academic communities.

Reforms that Never Happened. If one reads back the literature on the creation of the European Monetary Union (Cassel ed. 1998; Issing et al. 2001) it was quite clear, that *introducing the single currency was not meant to be a simple change of*

monetary techniques, which translate into lower external funding costs for each of the participants, irrespective of the substance and quality of their respective domestic policies. The EMU was seen as a triggerer of reforms, especially in the Southern countries, where labor market rigidities and the quality of state regulation was seen as inadequate for EMU membership.

By the time of accession it was clear for the NMS, that while the specific tasks emanating from the heritage of the Soviet empire were by and large mastered, *the more difficult tasks of creating sustaining growth and manageable welfare systems was yet to be arranged* (more on these in Kolodko ed. 2013). This was much in line with the emerging new developmental discourse of the World Bank, stressing the need for environmental, social and institutional settings, political participation as well as domestic ownership of reforms (replacing the one-size-fits-all solutions of the earlier decades).

To cut a long story short, those insights – which are to be seen as valid even from today's perspective – never materialized. *Neither in the South, nor in the East of the old continent could we observe deep going structural reforms,* which would have paved the way for sustainable growth and solid public finances. In a way, the global crisis of 2008–2009 just shed the limelight on the weknesses, on dodging of changes, and on minimalism that characterized policy-making in much of Europe.

Half-hearted Consolidation of Finances. It was taken for granted, both in the theory and the practical arrangements of the EMU, that financial sustainability is a side condition for growth. Quite apart from EMU and accession or non-accession, solid finances were seen to be a must (as Sweden or Denmark, two non-EMU members, or Estonia and Latvia, two latecomers indicate).

There were several problems with this *per se* valid insight. First, the focus was exclusively on public finance. In reality, especially in countries with deep financial intermediation, *private sector debt* – both of corporate and household sectors – *can be and often are bigger,* than that of the public sector. While Maastricht and Stability and Growth Pact focused on public finance, private flows were often neglected.

It is well known – especially with the benefit of hindsight – that private sector debt could and did explode – in the US subprime crisis just as much as in the case of Greek and Irish banks and Estonian, Bulgarian, Romanian and Latvian households. Lack of control and management of private flows has proven to be a major weakness.

But also in the realm of public finance, efforts were less than satisfactory. Consolidation efforts in most of Western Europe eased up upon entry in the EMU. Years of relatively high growth showed no improvement of debt/GDP ratios. In the postcommunist region only Hungary followed this path of drifting. In other

countries public finances were strictly managed, *but private sector debt exploded in an uncontrolled fashion.* As the saga of the debt crisis of the Southern countries unfolds, it is becoming increasingly reminescent of the NMS story, where public and private debt co-evolves (when one declines the other grows, see Győrffy 2013: 117–126) thus a joint assessment is due. In short: *the structure of consolidation was quite poor, in both the East and the South.*

The EU is Anything But a Growth Engine. This claim may sound as trivial for some, but we have to remember that accession to the EU has triggered inflated expectations. *First,* it was believed that the NMS will try to *catch up with old members in terms of institutional infrastructure,* as this follows from the logic of deepening integration. Also it is in their own best interest to adopt better quality arrangements and use external funding for it. A *second* related expectation was that of the convergence game. It was believed that for small open economies like the NMS it is straightforward to opt for *quick euro-adoption,* for the well known economic advantages of currency unions for small and vulnerable states in a volatile global economy. Furthermore more competition, less transaction costs, abolition of the exchange rate and interest rate risks, individually and jointly should act as a mighty driver for adopting the single currency as soon as possible. This holds all the more so if countries – like all NMS except the Baltics – have their business cycles synchronized to the EU core, and also trade basically – up to 70 or 80% of their total turnover – with the core EU. A *third* related expectation was the hope for *large multiplier effects of EU spending,* especially cohesion spending. It is conceivable, that, provided cohesion investments are highly efficient, they trigger considerably more expansion of output and employment than their limited macro-economic significance would warrant. Finally, *fourth,* we may add the above cited *perception of NMS becoming a new growth pole of Europe.* If we were to believe neoclassical models, backwardness is also a potential for accelerated catching up, provided policies are right. Such expectations may become self-fulfilling. Also mechanistic extrapolations would yield highly optimistic scenarios. Foreign investors are known for their herd behavior. Also, *fifth,* one could have expected *synergies* across the four factors and pairs of those we listed above.

It remains still much of a puzzle – despite the deep drilling in the country studies we cited at the onset of this paper – why the convergence game has not materialized and why all major NMS remained outside the framework of the EMU. None of the five potentials have been utilized. This was due, in part, to the nature of EU spending, focusing on less efficient areas. It was re-inforced by the sobering that followed the financial crisis, and in part because of the minimalism in terms of policy and institutional reforms. Let us add: the EU, on its side, was pre-occupied with its own crisis and its management, thus fell short of providing an effective umbrella against the storm of the global financial markets, against the

de-leveraging of banks, against a turn to overall pessimism in terms of growth potential of the NMS (Csaba 2014: Ch. 4).

The Crisis of Crisis-Management. Abstractly seen any crisis is also an opportunity. In a way, the Great Depression bred Keynesianism cum incremental free trade, which helped the successful reconstruction of Europe in 1950–70s. The crises of the 80s and 90s have triggered major reforms of the welfare states, which saved them from demolition or bankruptcy. The collapse of the Soviet Empire allowed some post-communist countries to join European integration (more on these in Berend 2008).

By contrast, management of the crisis in Europe – and particularly in NMS – followed the command of the day and lacked any vision for the future. Fiscal consolidation – if it happened at all – was done in an ad-hoc manner. In other cases, such as in the Czech Republic, Slovakia, Poland, Lithuania we see sustainingly high deficits over the 3% limit even at times of growth (ECB 2013: 45).

Similarly to countries of the South and France, *we see little if any sign of policies that would aim at reinvigorating growth* via mobilizing long term factors as trust, transparency, high levels of research and development or improved institutional infrastructure. This is bad news unless we are strong believers of the unconditional convergence of the neoclassical type. Else growth is unlikely to be forthcoming and potential rates of growth are likely to fall, along with the rest of the European Union (Halmai – Vásáry 2010; Halmai – Elekes 2013).The alternative would require, i.a. higher savings, more focus on tradables and improved institutions.

However, as the two papers, relying on rich statistics and complex econometric modelling indicate, *the situation has already changed dramatically, and way before the financial shock of 2008–2009.* While in the 1997–2007 decade growth potential of the NMS was 2.5 to 2.7% above that of the EU-15, that is about 4.0 to 4.5% per year, this situation has changed by now. Convergence of *potential* growth is already well underway, thus the common denominator, for both old and new Europe, *is likely to be around the range of 1 percentage point per annum.* If we consider that, according to the ECB statistics cited above, the growth rate of the Euro-zone declined from 2.7% per annum in 1996–2000 to a mere 1.2% in 2001–2010, accelerating slightly in 2011 to 1.5%, but declining in 2012 by 0.7% and in 2013 by another 0.7%, this is not a bold statement. The combined GDP of the NMS is around the tenth of total EU, thus the 1 pc pa forecast is in line with what any serious macro forecast could have. Obviously, under the customary 'no policy change scenario'. Else: it is the wake-up call for those who believe in automatic improvements with the time passing.

As evidenced by the procrastination with the management of the European debt crisis (Tanzi 2013), the slowdown is imminent, *while the financing options*

for a more robust scenario are unlikely to be brought about. Not least, because public finances *continue to be pre-occupied with compensation of losses,* as evidenced by the European Stability Mechanism and the bond purchase program of the ECB, *rather than with re-tailoring expenditure priorities in line with the needs top foster growth.* The latter would require more spending on education, in the place of the cuts, which reign from the UK to Hungary. It would require more investment in R+D, rather than keeping those budgets below 1% of GDP in NMS and at 1.4% of GDP in the EU average, or half of the Lisbon target, and a third of what the USA or Japan spends in relative terms. Public investments, if any, tend to go to the energy production and social safety net. The pro-growth alternative is creating harsh incentives to save energy and move established patterns of production and consumption – including households – to less energy intensive uses. Knowing the political economy behind those practices, however, *does not exempt from the ramifications of an allocation pattern,* which is clearly not in line with efficiency and competitiveness considerations, therefore is technically unable to overcome stagnation through more robust growth.

3. NEEDED: A NEW POLITICAL ECONOMY FOR EUROPE?

The therapy starts with telling what should *not* be expected, and then – relying on findings, *generated basically by development economics* – elaborate some lines whereby sustainable growth could be generated in the NMS. In so doing we may offer *just a rudimentary draft* of a new growth model, since elaboration of the latter would call for a monograph rather than a conference paper.

Elaborating the new options we first have to reject the 'received wisdom' of various sorts, that come from the academe and the policy-making circles. One is the unjustified hope for real convergence only by virtue of being underdeveloped. Let us stress: the models which do show convergence rely on *a series of strong assumptions which cannot be taken for relevant in the NMS,* such as free and flexible pricing, free flow of factors, high efficiency of financial intermediation and lack of distortions. The second 'recieved wisdom' is that the EU somehow will take care of the difficulties, as it is an institutionally superior organization. While the latter is certainly true, let us recall two basic counter-arguments. First, the EU has been growing by a mere 1.4% in the 2001–2010 period, followed by a growth of 1.6% in 2011, and a contraction of 0.3% in 2012, with a further drop of 0.7% in 2013 (the euro-zone performing actually even weaker, see ECB 2013: 39). This is anything but galvanizing. Second, the EU is *not* a developmental integration. The EMU is though welfare enhancing, but crisis management – setting up the ESM bail-out fund, and the bond market activities of the ECB – *are all aimed at manag-*

ing the business cíycle, not of generating growth. Cohesion spending accounts to a mere 0.46% of joint GNI, or roughly 1% of fiscal activity, with other items going to farming, immigration, environmental protection and others. In sum, the sheer size of EU funds precludes them to be the triggerers of growth at the macro level.

A third item of the received wisdom is the assumption: once the crisis is over, *things will be back to normal (i.e. on the pre-crisis track). This is a fallacy* on a number of grounds. First, a post-crisis scenario may be quite different from the antecendents, in terms of patterns and incentives. Second, the pre-crisis period was one of inflated expectations in terms of catching up, investors had an upbeat mood even at times, when data would have called for a different behavior. Third-de-leveraging – i.e. disengagement of foreign banks – is an ongoing process, which will be exacerbated by the over-cautious regulations of Basel Three. Fourth, the pre-crisis period was one of cheap money coupled with optimism. By now, *money for NMS is no longer cheap and the mood is pessimistic.* Fifth, as a result, pre-crisis rates *were way beyond historic levels but also above trend rates of growth.* Potential growth in the region is likely to be way below the customary expectation and nowhere close to a catchup scenario (Halmai – Vásáry 2010).

A *fourth* item is that of *complacency.* EU membership for most governments implies that homework is done, no additional effort is required to upgrade institutional infrastructure. This is plainly wrong, as evidenced by the lack of recovery following the end of the global financial storm. But arrangements – and policies – are likely to survive as long as in a media democracy complex issues of growth deceleration can not be meaningfully discussed in the fora that influence most voters.Thus the pressure to change is likely to remain limited, while *the incentive to do nothing* and leave most or all unpopular measures to your successor *is strong*.

In short, as any therapy, improvement begins with sincere, sober talk, taking account of the situation, and *accepting the need for change* (or the vices and dangers of doing nothing). It is hard to say what level of crisis-consciousness is 'optimal' for a change. But it is clear: too much of crisis is laming – as it is in the Mediterranean countries. By contrast, lack of crisis feeling was at the root of drifting in NMS in the post-2004 period.

When this is accepted, the possibility for *a new political economy approach* emerges. This implies that one gives up the futile hope of finding a solution in the current mainstream, as long as it continues to be void of instituions and remains highly disinterested in policy applications. Therefore the approach must be *political* economy, where decision-making, persuasion, communication, and the change of incentives are all part and parcel of the analytical frame as well as of the implementation project. *New* is the political economy insofar as it appreciates the relevance of quantitative analyses, as it does not intend to replace inherent logic of

the private economy with political mobilization, with externally imposed values, or other extraneous considerations. In so doing development economics, both the orthodox line (Rodrik – Rosenstzweig eds. 2010) and the less conventional version (Szentes 2011) can be instructive.

Following the tradition of continental economics, the relevance of some old insights comes to the fore. *Rule of law and security of private property rights.* Crisis management in EU countries, including core EU states like the UK and the Netherlands included enhanced state interventionism, up to the point of nationalizations. This has created the false impression, in parts of the profession and in policy-making circles alike, as if property rights were unimportant, as if the usual assumption – used for convenience in introductory macro courses – of the irrelevance of this institution were a fact of life. What is true, under strong assumptions, and under a general equilibrium framework, however does not hold in the real world situations. It is hardly by chance, that nationalized units – like Fortys – or banks with heavy sate bailouts – like Societé Generale and the German regional banks, as well as the Spanish *caxa,* the local savings' co-operatives, – have not improved their fiancial results considerably. By contrast Goldman Sachs and many other US institutions have long retuned public money and are back to profitable operation.

Managing the crisis may well have, on occasion, required swift actions, often transcending pre-existent legal arrangements. However, it is dangerous to conclude that the latter constitute 'normalcy' in the new era. Traditionally, such attempts have been strong in France, Spain, Greece and Italy, but this should not lead NMS to emulate bad practices. The more they are reliant on more savings and investment – as we indicated above – the more they need transparency of governmental operations and generally rule of law across the board. While individual actions of arbitrary interference may get unpunished at first, if interventionism becomes systemic.The latter has yielded low growth already in the past.

While it may sound trite to the layman, it is heretic for the (mainstream) economist to claim that money matters. Moreover it is vital for sustaining robust rates of economic expansion, quite contrary to the discussions in formal theoretical models, mostly void of money and thus of monetary institutions. *Financial intermediation need to be deepened and allocational efficiency improved.* The more we believe that electoral preferences do not allow for a major increase of investments as a share of GDP in NMS, the more relevance we may allot to financial intermediation. For the time being stock exchanges are thin, and bank-deleveraging is going on. Intermediation costs are generally high and competition in banking quite restricted. This does not allow for major, market-driven restructuring.

The devil of politics, exorcised by Samuelson and his disciples, comes back through the window. More recent studies in broader developmental theory are

unanimous about the pivotal need of participatory decision-making and of democratic accountability as being major guarantees for sustainability of any project with a life span over a year or two, be that in irrigation, town planning or health care. *Democracy, human rights and participation are not impediments, but constituents of sustainable growth.* While the past decade has produced a wealth of sources on the relevance of economic freedoms, it is more of an open question if political freedoms also are important for sustained development. Joining a number of other authors Gerring et al. (2011) argue as follows. A democratic arrangement is more of a guarantee of sustaining policies than the tranditionally postulated autocratic government. If for no other reason, because of the nature of the reforms that matter: regional development, schooling, pensions, environment, health care are all areas where the time span of measures to take effect is measured in decades. By contrast, if the easy way is open – as in the case of resource rents, particularly relevant for the economies of new independent states as Russia, Kazakhstan and Uzbekistan, but also in the broader developing world – the temptation to redistribute rather than reform may prevail (Tsui 2011). Indeed, as evidenced the postcommunist cases referred to above, the ossification of vertical management structures survives indeed until the last minute, even if this outcome is anything but pre-determined. As a rule, institutions are the independent variable in the equation, but in other circumstances, as seen above, the reverse causality may work out.

This line of thought has also been internalized by most international agencies, as the OECD, or the European Union proper, calling for more participation in order to ensure the social acceptance of economically needed/efficient larger projects. Domestic ownership implies also that it is the local elites, and preferably also large parts of society, who must be internally committed to the basic ideas and values embedded in the reforms to come, such as transparency, sustainability, inter-generational equity and environmental quality.

The more we move away from imminent measures of financial stabilization and move towards structural and institutional reform, the less relevant the *speed* of decisions become, and the more their *quality and sustainability* counts. Educational or pension reforms cannot rationally and efficiently be changed in each electoral cycle, nor can health care or regional development be re-tailored by the week.Thus frequency of changing legislation is a good *inverse indicator* of its quality.

4. ACCOUNTING FOR THE NON-ACCOUNTABLE

While most standard anayses of catching up potential is done in the form of growth accounting, the considerations above already foreshadow the enhanced relevance of non-quantifiable factors for both policy formation and outcomes. Let us address some of those factors which are growingly, if not yet universally, appreciated in a large body of the literature!

Independence, efficacy and legitimacy of the *judiciary* are vital. The less the government can and should act as a referee among competing interests, the more relevant organized and civilized dispute settlement becomes. While nobody would expect litigation to become as much of an everyday phenomenon in Europe as it is in the USA, it goes without saying that the currently often practised 'might is right' renders NMS as 'the Wild East' or robber capitalism for many observers and participants.

We do not venture over political science territories to explain why checks and balances are vital for any civilized society. What matters from our perspective is the vast relevance of the judicial system in shaping the type of capitalism that emerges (Acemoglu – Robinson 2012). In short, this is the decentralized way of managing conflict, often supported by shortcuts as arbitration and reliance on the *lex mercatoria,* or a series of customary arrangements that emerged in maritime trading practice since the Middle Ages.

What is most important for the NMS perspective is to avoid slipping into rule *by* law, which was a feature of the Soviet system. As distinct from rule *of* law this implies the instrumental view of law as a form of exerting political leverage, rather than a set of rules of the game that binds even the legislator. While it is a matter of custom, tradition and governance style if the checks and balances rely more on the Constitutional Court, as in Germany, or on the Supreme Court, as in the USA, the basic issue is clear. Namely: that *counterweights to the executive* are needed, as well as arrangements that allow for *decentral management* of economic and social conflict, without reliance on any level of the executive. The latter is oftentimes one of the parties, in its capacity as an – economic and political – stakeholder.

In the longer run components of *social psychology, such as trust, credibility, calculability, transparency* gain in importance. While rule of law is a kind of minimum, these factors, especially in the longer run, are added to the *unwritten rules of the game*. As a matter of fact, in the majority of cases, people and firms do not turn to courts, not even to public offices. They manage their affairs horizontally.

It is one of the commonplaces of business literature to observe that the longer a contract is, the less its binding power is. The more we move North, the shorter are the contracts, and more is the implicit binding power which goes with it. Modern

lean management is built on relationships of trust, even active co-operation, consultation and team work, feedbacks and voluntary assistance. This presupposes a social climate where all those informal institutions and incentives may emerge and function.

We need to underscore the relevance of those soft factors against several trends observable also in the NMS. *First*, there is a tendency, emanating from textbook economics, where anything non-measurable is ascribed to poetry, which is nice but not very relevant, especially not for decision-making. *Second,* populism in politics – shaped to some degree by needs of the mass media with the 40 second clip in evening news – tends to look for simple, even simplistic solutions with immediate effect. The above listed socio-psychological factors are not those. *Third,* it may even seem that adhering to those considerations may be positively harmful to decision-makers, rendering their rule clumsy, inefficient and often contrary to their percieved interest or prestige. *Fourth,* these factors breed harvest only in the long run, and Keynes is frequently misquoted to discredit that. While Keynes was in favor of swift action during crisis, he also advocated symmetry in public finance, which does take care of the events of 5 to 10 years. Likewise, if one thinks of capitalism as a system where wealth and cultural supremacy can, and also tends to be, bequeathed, short-termism is something truly pre-capitalist.

Indeed, as known both from sociology and business studies, the more complex a task or an organization is, the higher the relevance of these soft non-material factors against measurable items are. *Reputation* is a well-deserved brand name in business for the sum of the immaterial values accumulated over decades and under different conditions. If one thinks about the reputation of universities, from Oxford to Harvard, publishers, from Palgrave to Nomos, or Nobel winners in any discipline in any time, it becomes clear: the impact of Gabriel Garcia Marquez cannot and should not be measured by the number of his lines, the thickness of his books, or actually any quantitative indicators, including the revenue he might have generated over the decades of his activity as a writer.

Indeed, reputatiuon – also in the conduct of business – is an immaterial and immeasurable value, with overriding significance over the measurable, quantifyable items, which serve as a base for *preparing, rather than taking* the final decision.This applies to finance, investment, and most of all personnel decisions.True, as Lazear and Shaw (2007) explain, this qualitative assessment is balanced with organizational choices and quantitative assessment of the perceived/expected contribution, in terms of income generation but most of all, *fitness to the task* (yet another qualitative criterion used in business practice).

We may thus add yet another non-measurable, non-material, non-quantifyable factor, which has gained prominence in the global discourse on development: this is *the quality of governance.* It is well known, that the World Bank and in their

footsteps many other organizations attempted to 'put numbers' on the quality of governance. For any pratical purposes – other than publishability in a mainstream journal – these efforts have remained futile.

Therefore it is quite important to appreciate: quality of governance is a *single, over-arching, subjectively set indicator,* which is easy to lose and difficult to gain. Quality of governance implies ability to react to unforseen events, reatain integrity, being able to think of the common good and many others.

Good governance therefore does not lend itself to quantitative assessment. But it is being assessed, by investors, the electorate, the press, and common people coming to each country. It is certainly much more than lack of corruption, lack of predation, lack of authoritarianism, or just following procedural norms of the country and the EU alike.

Finally mention should be made of the new categories that emerged over the past two decades in developmetal discourse and matter for the NMS. These include *state capacity,* i.e. if the government is able to deliver. Not just to pass nice laws, but to act accordingly, with sticks and carrots. *State capture* is perhaps more extensive in the New Independent States than in NMS, but it would be hard to deny: on occasion business groups and other vested interests could influence major governmental decisions. The more we think both dimensions need improvement, the higher we appreciate *the particpatory elements,* the local ownwership component discussed above. The reversal of secularist and industrializing, opening up policies in much of the Middle East and North Africa had to do with the inability of those states to improve on those counts. One may speculate, how much tradition is to blame for this (Lane 2011), but the bottom line is the lack of improvement.

What makes the parallel relevant for NMS is that all surveys – Eurobarometer, World Value Survey and output of local think tanks – are indicative of a large degree of *disillusionment* in post-communist societies. Disinterest in public affairs is on the rise, especially among the young. The rise of extremist movements – in old and new EU members – is a clear sign of the estrangement that emerged between elite politics and popular concerns.

5. QUALITY AND QUANTITY

In the preceding pages we attempted to present a new analytical framework for understanding the situation in the NMS as well as offering *a framing for the policies that may induce higher growth* in the region than current forecast would suggest. The two – analytical and normative – together add up to the new political economy, needed for development of the NMS.

It is perhaps good to remind the reader: *development and growth are no longer equated* in the broad literature we cited. Development is measured primarily through the improvement of Human Development Indicators (HDI), more recently joined by various *assessments of subjective well-being.* The latter line of research emphasizes particularly the non-material components of advancement, such as satisfaction with one's life, fulfillment in job, seeing a purpose for oneself and for the society in the future, caring about the environment and many other items. While those continue to be excluded from economics education, even at the PhD level in the 'global economics program' of leading universities, this is no longer the case in the cutting edge social sciences. Well-being studies appear in leading US journals and major international organizations follow the developments in this field, not least through the surveys cited above.

What is the point of de-emphasizing the measurable and returning to the tradition of appreciating the subjective in economics as well as in business analysis? It seems that this turn may promise several advantages. *First,* as an analytical device it allows for a better understanding of *complex systems,* as the macro-economy of each new member-state is. *Second:* it brings economic analysis closer to the *real world situation* we wish to understand as part and parcel of our diagnostics. *Third,* it allows for better understanding of why political and economic *rationalities departed* in the past fifteen years, in old and new members alike. *Fourth,* it allows for appreciating *the social side conditions* of economic change in the full and in an integrated manner.

Let us highlight: the new feature of our political economy approach is *not* that we bring back the socio-political, as used to be customary in economics until the 1990s. What is new is internalizing and integrating the social *as part of both the explanatory power* (via incentives) *and the success indicators* (via sustainability) *of the economic agenda*.

What could be mastered under the given constraints of space and time was to provide a skeleton of a new approach. It provides a frame, which ideally should and could be filled with the flesh of individual country cases. Some of this work was presented in one of the twin volumes edited by Augustin Fosu (2012). However, most of it has been conluded before the financial and growth crisis. The more interesting further research could be to complement the cases of post-communist countries, and draw the nuanced conclusions on the ground of emprical evidence. But this would call for a multi-author volume, rather than a single paper. However, the four diagnostic and the seven therapeutic points may help create more productive and more relevant analyses of the processes than it had been customary so far.

Bringing back the *'condition humane'* in economic analysis, as advocated above, has a series of implications for a variety of areas in terms of concepts,

methods and communication of available economic knowledge. *First:* economic education should reflect, from the very outset, the new realities and academic considerations outlined above. Instead of copying the 'global economics program' (Fertő 2012), pyramids of knowledge and learning should be re-established, with broad general education laying the foundation for later specialization. In other words, there is an urgent need to reject the Bologna process and the ensuing standardization, in favor of the traditional, uniform five year economics and business (and IR and political science) programs. In each of these challenges peculiar to European societies – aging, environment, unemployment, lack of savings, transparency, multi-culturalism, etc. – should be addressed.

Second: communication of available – relevant, socially and politically relevant – economic insights should be fundamentally improved. By marginalizing the self-referential discourses the economics profession could assist improving the quality of public discourse and thereby the quality of public policies. Rather than allowing for the shallow and misleading debate on 'how much austerity will be enough', serious issues related to structural and welfare reforms and life-long learning should be initiated and conducted in the broad public, including the new media.

Third: evidence-based policy evaluation, both in terms of quatity and quality should become the rule. For instance, checking the propositions of political parties by independent private forecasting agencies, preferably from abroad, could help making the voters alert of the forseeable consequences of some choices. Even in this case unforseeable events may occur – and this should also be made clear.

Fourth: realistic – if not always rational – expectations can be formed only if truth-telling, both at the level of academic analysis and of policy discourses, as advocated inter alia by Grzegorz Kolodko (2011) are to become the standard. For well known reasons, we are a long way off from this maxim being heeded. But it is the mission of the academic to ring the bell when the time of awakening has arrived. And – as we argued in the main body of the text – this has been the case in post-crisis Europe.

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